GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2645
ANSWERED ON:31.08.2007
LIBERALISATION OF BANKING BUSINESS
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Will the Minister of FINANCE be pleased to state:

(a) whether the banking reforms have strengthened the bank`s risk assessment;

(b) if so, the details thereof;

(c) whether the decline in Non-Performing Assets (NPAs) have contributed to credit expansion; and

(d) the total amount of NPAs released by the PSBs during the year 2005-2006?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) & (b): Yes, Sir. To improve the health of the banking sector in India in general and that of Public Sector Banks (PSBs) in particular and also to bring it at par with international standards, the Reserve Bank of India has prescribed measures for strengthening of risk based prudential supervision, introduction of capital adequacy standards on the lines of the Basel Committee norms, etc. coupled with wide ranging steps undertaken by the Government. After initiation of reforms in early 1990s, financial performance of the banking sector has improved significantly. Balance sheet and profitability indicators viz. Return on Assets, Net Interest Margin, Non-Performing Assets (NPA) Ratios, Provisioning and Classification norms for NPAs, Capital Adequacy Ratio etc. suggest that the Indian banking sector now compares well with global benchmarks.

(c): Yes, Sir. The lower level of NPAs results in increased profitability and reserves, and enhanced liquidity, which provides more leverage to the banks to expand their credit portfolio.

(d): During the year 2005-06, the NPAs of PSBs have reduced by Rs.23,2l0 crore, which includes recoveries through upgradation (Rs.3,787 crore), compromise / write-offs (Rs.8,833 crore) and cash recoveries (Rs. 10,590 crore).